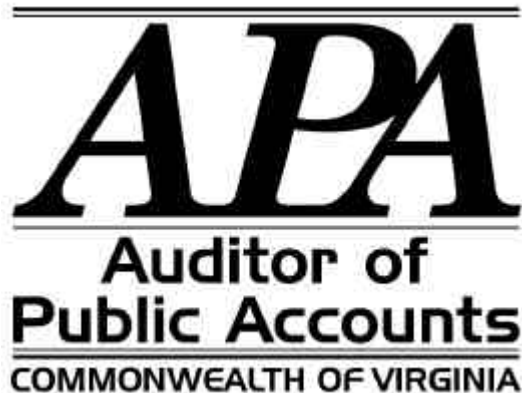


**DEPARTMENT OF HEALTH PROFESSIONS  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2001**



## **AUDIT SUMMARY**

Our audit of the Department of Health Professions for the year ended June 30, 2001, found:

- Amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- Internal control matters that we consider reportable conditions, however, we do not consider these matters to be material weaknesses;
- No instances of noncompliance with applicable laws and regulations tested that are required to be reported; and
- Incomplete implementation of corrective action with respect to the audit findings reported in the prior year as reported.

Overall, we found that inadequate communication between the Finance division and the Data Center led to several internal control findings, including the following:

- Properly Evaluate Alternatives to the Existing System
- Strengthen Internal Controls over the All Health Licensing and Discipline Information Network System
- Improve Controls over the Commonwealth's Accounting and Reporting System

In addition, we found that the Department did not adequately document its cash collection policies and procedures, which caused a breakdown in the separation of duties. As a result, an additional finding was written to address this issue:

- Improve Internal Controls over the Cash Collections Process and Petty Cash Fund

## - TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT

AGENCY HIGHLIGHTS

AGENCY BACKGROUND

AGENCY OPERATIONS

AGENCY OFFICIALS

February 6, 2002

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Health Professions** for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures  
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide

reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are identified throughout the report. We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has not taken adequate corrective action with respect to the previously reported finding "Strengthen Internal Controls over the AHLADIN System." Accordingly, we included this finding in the report. The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 4, 2002.

AUDITOR OF PUBLIC ACCOUNTS

## **AGENCY HIGHLIGHTS**

### ***Newly Established Board***

The Department of Health Professions (Department) had a new board for Physical Therapy added by legislation in fiscal 2001. Before having their own board, the Board of Medicine licensed physical therapists. There are currently 5,417 licensed physical therapists. The Board of Physical Therapy's mission is to protect the public by assuring safe and competent physical therapy practice.

### ***Plans for New Licensing System***

In October 1997, the Department entered into a sole source contract with Systems Automation Corporation for \$1.3 million. The purpose of the contract was to customize Systems Automation's off-the-shelf health professional licensing system. Although the Department indicated in its request that Systems Automation's product satisfied all of the Department's needs, the Department did not purchase the reporting and financial modules of this system. Therefore, Systems Automation built, from scratch, a new customized financial module. In doing so, the Department communicated its operational needs to Systems Automation.

It is unclear whether Systems Automation did not provide the services agreed upon or if the Department did not communicate its needs effectively. However, since the system became operational in 1999, the Department has encountered numerous problems processing transactions involving the following activities:

- Applying a late fee to a practitioners account
- Refunding an overpayment to a practitioner from their respective account
- Changing a practitioner's license category (inactive vs. active)
- Processing a single check payment for multiple practitioners
- Processing a single check payment for a variety of licensing fees

To resolve these problems, the department paid for several enhancements to the system resulting in a total cost of \$2.1 million. Systems Automation has offered to upgrade the system by migrating its current database to the off-the-shelf upgrade; however, the cost of the upgrade is unknown.

The Department has decided to look at other alternatives besides the upgrade offered by Systems Automation and is now preparing a Request for Proposal (RFP) to replace the current licensing system. The Department plans to issue the RFP in early April 2002 for a web-based system.

### **Properly Evaluate Alternatives to the Existing System**

The Department has not performed a formal analysis on the cost effectiveness of upgrading the current system versus purchasing a new system. Without a cost analysis, the Department cannot ensure that they are responsibly using the funds of the Commonwealth.

In addition, the Department has not assigned a project manager. A part-time employee, not designated as the project manager, is currently working on gathering information for the RFP from the various cost center managers. Without a designated project manager, the Department runs a risk of not meeting its project objectives and timelines. A project manager also provides a focal point for decision-making and problem resolution on projects of this size.

Also, the Department has not developed a funding plan to pay for the new system. Although the Department has stated that the money is available in the budget, a detailed plan outlining the funding shifts

and corresponding changes in the other service areas is necessary to verify that funding will be available and to ensure that the Department will continue essential operations.

### *Recommendations*

The Department should perform a cost analysis to determine if procuring a new system has the most economical benefit to the agency and the Commonwealth. If so, the Department should determine if funding is available and document a funding plan. The Department should also designate a project manager to ensure the project meets its objectives and there is someone to coordinate the implementation with the vendor. Lastly, the Department must determine the needs of the agency and effectively communicate those needs to the vendor to prevent the current situation from reoccurring.

## **AGENCY BACKGROUND**

The Board of Health Professions (Board), the Department, and Virginia's 13 health regulatory boards have responsibility for ensuring the safe and competent delivery of health care services through the regulation of the health professions. The Board sets policy, reviews the Department's budget matters and monitors its activities, adopts standards to evaluate the competency of the professions and occupations, and certifies compliance with those standards. The Board has one member from each of the 13 health regulatory boards and five members appointed by the Governor to serve a four-year term.

The Department provides administrative services, coordination, and staff support to the health regulatory boards. Each of the health regulatory boards determines which applicants meet the necessary requirements for licensure, certification, and registration. Licensure or certification typically requires the completion of a board-approved professional education program and the passage of approved examination in the professional field.

## **AGENCY OPERATIONS**

### *Licensing*

The Department receives its funding primarily from license application, renewal, examination, and other miscellaneous fees charged to the practitioners and applicants. Each board sets its own fees and the timing of the collections as either annual or biennial fees. The Code of Virginia, Section 54.1-113, requires each board to stay within ten percent of their budget. When a board is above or below the ten percent, the director initiates the process of increasing or decreasing fees. The amount of the increase or decrease considers the status of the current budget and must be promulgated in accordance with rule-making requirements of the Administrative Process Act. Each board submits a Pre-NOIRA (Notice of Intended Regulatory Action), which is an official notice to the public that explains the status of the budget and the need for the increase or decrease in charges. Decreasing fees takes approximately three to four weeks, while increasing fees takes approximately two years. During fiscal 2001, the Boards of Medicine, Psychology, Nursing, and Counseling increased fees.

Overall, the number of licensees increased by 3,915 (or two percent) during fiscal 2001. The largest individual board increase was the Board of Pharmacy, due to added covered occupations. The largest decrease occurred in the Board of Medicine, which relates to the separation of Physical Therapy into a new board. The following table represents the number of licensees by individual board for the last two years.

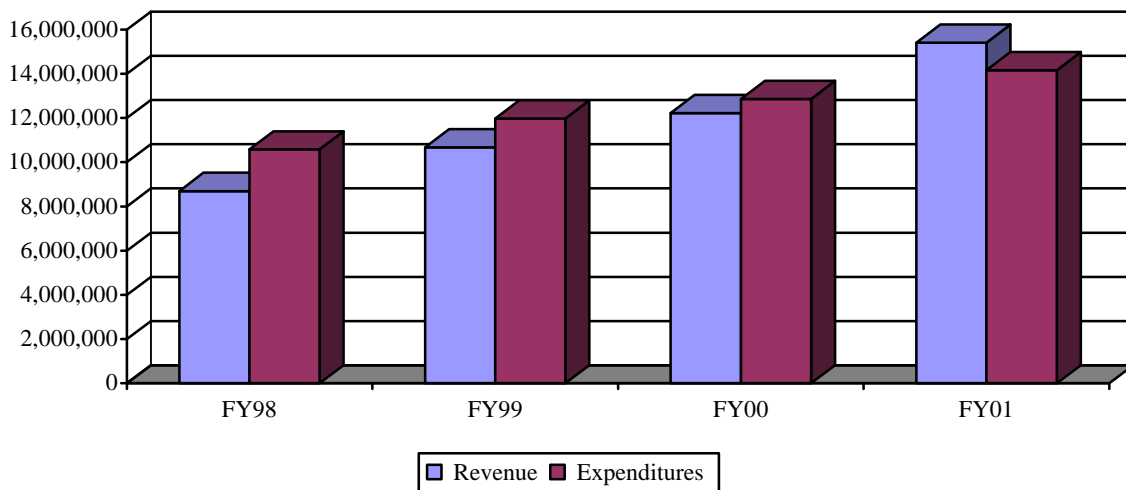
Boards	Number of Licensees		Differences between Years	
	Fiscal 2000	Fiscal 2001	Number	Percentage
Nursing home administrators	906	868	(38)	(4.2)
Medicine	47,600	44,630	(2,970)	(6.2)
Nursing	153,547	152,970	(577)	(.38)
Pharmacy	12,550	13,860	1,310	10.4
Dentistry	8,522	8,652	130	1.5
Funeral directors and embalmers	2,463	2,416	(47)	(1.9)
Optometry	2,273	2,342	69	3.0
Veterinary medicine	4,338	4,501	163	3.8
Counseling	5,367	5,516	149	2.8
Psychology	2,387	2,449	62	2.6
Social Work	4,153	4,483	330	7.9
Audiology and speech	2,531	2,448	(83)	(3.3)
Physical therapy	0	5,417	5,417	100
Total licensees	246,637	250,552	3915	

Source: AHLADIN Licensee Count Report

### Financial Information

The Department uses a Dedicated Special Revenue Fund to account for the daily operations of the agency. The largest source of revenue comes from the licensing application and renewal fees. Fiscal 2001 was the first year in the past four years that the Department's revenues exceeded expenses. This increase in revenues is the result of an increase in licensing fees by four boards. The following graph depicts the yearly revenue and expenses for the Department during the last four fiscal years.

Revenues and Expenditures for Fiscal Years 1998 - 2001



The Department uses an allocation process to budget for each board. In January 2002, Maximus, Inc. performed a central service cost allocation review of the agency. The intent of the review was to ensure that the Department was allocating the money between the boards in the most appropriate method. Although Maximus made some recommendations, their opinion was that the Department's cost allocation methodology



provides for a reasonable allocation of costs to the revenue producing boards. The Department recently purchased QuickBooks to monitor spending within cost centers.

### ***Enforcement***

The Department's Complaint Intake Unit receives information indicating potential violations of law or regulation. The sources for the complaint includes health care practitioners, employers and employees; other licensed professions; law enforcement agencies; courts; or concerned citizens. When the information appears sufficient to justify an investigation, the Unit opens a case, gives it a priority, records it in the agency's computer tracking system, and assigns it to an investigator. A case's priority is based on the potential danger to public health or safety.

During an investigation, a specially trained, sworn investigator of the Enforcement Division interviews potential witnesses, obtains copies of relevant documents, and accumulates evidence. The Department has developed internal target dates for the completion of an investigation. However, due to the increase in the caseload, investigators do not always meet these targets.

Cases identified as Priority Three and Four have the greatest difference between target and actual number of days in investigation. Priority Three and Four cases have targets of 90 and 130 days in investigation, respectively. However, the actual number of days in investigation averages 189 for Priority Three and 244 for Priority Four. These cases relate to standards of care and can require extensive investigations including review of medical records and interviews with patients and physicians, and may involve other agencies, both state and federal, requiring extensive time spent in coordination with other agencies. The Department has hired more investigators in an attempt to meet the workload and decrease the number of days in investigation.

At the conclusion of the investigation, a report is submitted to the appropriate board for consideration. After the board receives the investigative report, they perform a preliminary review to determine if there is probable cause to charge a licensee with a violation and, if so, a hearing is scheduled. Disciplinary action usually takes the form of one or more of the following sanctions:

- Reprimand or censure
- Monetary penalty
- Remedial or corrective action
- Probation with requirements for the licensee to complete within a specified time
- Limitation on the licensees privilege to practice
- Suspension of the license either indefinitely or for a specific period of time
- Revocation of license

The following table represents the complaint statistics for fiscal 2000 and 2001 by board. The Complaints represent all of the complaints received by the Department; Findings represent all of the complaints investigated and turned over to boards; Violations represent all findings where a law or regulation of the board has been broken; and Sanctions represent any actions taken by the board such as fines, suspension, or revocation of license, reprimands, or probation.

Board	Complaints		Findings		Violations		Sanctions	
	FY00	FY01	FY00	FY01	FY00	FY01	FY00	FY01
Audiology and speech/language pathology	3	4	1	1	0	0	0	0
Counseling	20	33	20	26	3	4	2	4
Dentistry	312	335	251	191	28	21	28	21
Funeral directors and embalmers	59	123	44	60	7	29	7	27
Medicine	1,220	1,349	948	1,094	126	103	104	90
Nursing	1,460	1,408	1,313	1,109	369	269	331	255
Nursing home administrators	22	25	15	23	3	2	3	2
Optometry	68	66	40	78	9	16	8	16
Pharmacy	398	273	249	430	160	239	160	232
Physical therapy	0	18	0	12	0	3	0	3
Psychology	52	29	51	31	7	5	7	5
Social work	28	37	30	33	6	3	6	3
Veterinary medicine	153	137	131	124	59	47	57	46
Totals	3,795	3,837	3,093	3,212	777	741	713	704

Source: Agency MIS Case Summary and Findings Reports

Sanctions resulting in monetary penalties go to the Literary Fund. Monetary penalties totaled \$650,800 during fiscal year 2001.

### ***Health Practitioners Intervention Program (HPIP)***

The Health Practitioners Intervention Program (HPIP) began in January 1998 in response to General Assembly legislation enacted in 1997. The program is open to all persons licensed under Health Professions, including applicants and practitioners whose credentials may have been suspended or revoked. The purpose of the program is to encourage concerned practitioners to seek assistance; establish a non-punitive alternative for impaired practitioners who are eligible; enhance public safety; provide services to practitioners who previously had no peer assistance program; and provide statewide mental health and substance abuse education within the professions.

The program provides an alternative to disciplinary action for eligible participants. Specifically, the Code of Virginia allows for stayed disciplinary action under the following conditions:

- No report of possible violation of law or regulation, *other than* impairment or the diversion of controlled substances for personal use has occurred and such use does not constitute a danger to the public.
- The practitioner enters the program by written consent.
- The disciplinary action is not the result of previous stayed action.
- The practitioner remains in compliance with the terms of his monitoring contract, which may include testing, treatment, and limitations of practice.
- There has been consultation with the individual assigned as a liaison for the applicable board.

Practitioners who do not meet the above conditions can still enter the program, however, any disciplinary action would continue. The largest portions of participants who enter the program receive a "Stay of Action," which significantly reduces the number of hearings by the boards. However, if the practitioner does not continue with the program or relapses, the board notifies the practitioner and revokes the Stay.

HPIP is a monitoring program, not a treatment program. Health Profession's entered into a contact with Virginia Monitoring, Inc. of Hampton to provide monitoring services to all participants. Virginia Monitoring provides investigation, intervention, assessment, evaluation, referral to treatment, and continuous monitoring to professionals with chemical dependency/abuse or physical or mental impairment. Virginia Monitoring reports to a committee established by Health Professions on a bimonthly basis on the progress of participants and requests for stays of disciplinary action and dismissal for clients who do not comply with their contracts.

The following table identifies the growing number of practitioners in the HPIP program.

Board	HPIP Participants		
	FY99	FY00	FY01
Nursing	245	352	428
Medicine	99	129	152
Pharmacy	25	37	48
Dentistry	9	16	22
Social work	5	8	8
Counseling	4	5	7
Veterinary medicine	3	5	8
Psychology	2	2	2
Optometry	2	1	2
Funeral directors and embalmers	0	1	1
Physical therapy	0	0	2
Nursing home administrators	0	0	0
Speech/Audiology	0	0	0
Total	394	556	680

### ***Information Technology***

#### **Strengthen Internal Controls over the All Health Licensing and Discipline Information Network (AHLADIN) System**

The Department does not have policies and procedures in place to ensure adequate internal controls within the AHLADIN system. The current user access groups do not provide sufficient separation of duties. Most users of AHLADIN have access to post fees, extend expiration dates, waive fees, print licenses, and return payments. Therefore, employees have the ability to lower or raise fees depending on the practitioner without the agency's knowledge that there was a fee adjustment. Additionally, the Department does not monitor access to the system to ensure terminated employees have their access removed. We found three employees that terminated employment who still had active accounts.

Furthermore, the Department does not reconcile AHLADIN to the Commonwealth Accounting and Reporting System (CARS). On a daily basis, the Department enters revenue into both systems. CARS is the Commonwealth's official accounting and reporting system, therefore, reconciliation between the two systems is essential for the Department to ensure that AHLADIN properly shows the revenue collected and licenses issued. There are also other internal accounting problems with AHLADIN that the Department has identified, but remain unresolved. A current example is AHLADIN does not properly recognize inactive license fees, which requires the accounting office to manually circumvent the system in order to issue and print the license.

### *Recommendation*

The Department should limit employees' access to processes critical to their job responsibilities to ensure an adequate separation of duties. In addition, we recommend the Department establish procedures to ensure timely removal of all terminated employees. The Department should also reconcile CARS and AHLADIN at least monthly to ensure the accuracy and integrity of the revenue data.

The Finance department and the Data Center should work together to address the operational issues with the system.

### **Improve Controls over the Commonwealth's Accounting and Reporting System (CARS)**

The Department designated the chief information officer as the CARS security officer and the Finance Manager as the back up CARS security officer to the Department of Accounts (Accounts). Neither of these individuals understood the responsibilities of this position. Initially, they could not provide the auditor with documentation to verify CARS user access. The Department also completed improper paperwork to obtain access for an employee. Additionally, there are no procedures to periodically review and verify the propriety of CARS user access within the agency.

Last year, the auditors found several terminated employees with CARS access and this year, the Department had removed the access of all but one of those individuals. This individual terminated employment September 2000. In addition, we identified two individuals who terminated employment dating back to June 2001 with CARS access.

The primary purpose of the CARS Security Officer is to control access of Department personnel to the Commonwealth's accounting system. In addition, this position serves as the key liaison between Accounts and all agency personnel who submit data and use CARS reports.

### *Recommendation*

The Department should establish internal policies and procedures that identify the responsibility of the CARS Security Officer and identify procedures to update CARS access timely.

### ***Revenue and Collections***

The Department receives payments either directly or through a lockbox system. Each month, AHLADIN runs a program that prints renewal notices for licenses that expire within 60 days. The individual boards receive the renewal notices and certify their accuracy. The Department of Treasury mails the license renewals. Although most licensees send their payments to the lockbox, licensees may also make payments in person to the Department. When this occurs, the Department issues a pre-numbered receipt to the licensee and collects, counts, deposits, and records the cash collection.

### **Improve Internal Controls over the Cash Collection Process and the Petty Cash Fund**

The Department does not have an adequate separation of duties for its cash receipting process. Currently, the Finance Division has one individual to count daily cash collections, reconcile collections to receipts, prepare bank deposits, and prepare documentation for entry into CARS. Separation of duties is essential to maintaining control over cash and providing sufficient internal controls to minimize the loss of funds.

Furthermore, the Department does not have adequate controls over its petty cash fund. There were several instances where the department extended cash advances to wage employees from April 2001 to

December 2001 that totaled over \$3,000. State procedures require the use of the petty cash fund for emergency paychecks only. State procedures also require the agency have written approval from Accounts before using petty cash funds for this purpose. The Department did not have the approval.

*Recommendation*

The Department should add an approval and review function to its cash receipting process. An approval and review function would facilitate internal controls, safeguard financial assets, and reasonably assure the proper recording of financial transactions. In addition, the Department should discontinue the practice of loaning money to wage employees without the written consent of Accounts.

DEPARTMENT OF HEALTH PROFESSIONS  
Richmond, Virginia

Robert Nebiker, Director

Board of Health Professions

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